

## Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 IGA-02 AGR-20 SWF-02 NEA-14 IO-14

FEA-02 INT-08 DRC-01 /225 W

----- 002000

R 130850Z SEP 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 4561

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

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BANGKOK FOR RED

E.O. 11652: N/A

TAGS: EAID, JA, ID

SUBJ: JAPANESE AID TO INDONESIA

REF: A. TOKYO 7041

  B. TOKYO A-532

SUMMARY: JAPAN-INDONESIA NEGOTIATIONS ENDING SEPT 6 RE-SULTED IN JAPAN'S COMMITTING 41 BILLION YEN (ABOUT 136 MILLION DOLLARS) IN NEW PROJECT LOANS TO INDONESIA. TERMS WILL BE 2.75 PERCENT INTEREST, 30 YEARS' REPAYMENT (INCLUDING 10 YEARS' GRACE). ADDITIONALLY, AGREEMENT WAS REACHED ON TERMS OF AID PROMISED BY JAPAN IN EARLIER YEARS BUT NOT YET FORMALLY COMMITTED. DOCUMENTS CON-SUMMATING THESE AGREEMENTS WILL BE EXCHANGED SEPT 20. END SUMMARY.

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1. FONOFF REP (SEZAKI, DEPUTY DIRECTOR, FIRST ECONOMIC COOPERATION DIVISION) TOLD EMBOFF THAT GOJ AND GOI REPS HAD CONCLUDED NEGOTIATIONS SEPT 6 REGARDING NEW JAPANESE AID TO INDONESIA WITHIN IGGI FRAMEWORK. ACCORDING TO SEZAKI, AGREEMENT WAS REACHED THAT GOJ WOULD PROVIDE 41 BILLION YEN (ABOUT 136 MILLION DOLLARS AT 302 YEN/DOLLAR) IN NEW PROJECT LOANS. TERMS OF LOANS, TO BE EXTENDED BY JAPAN'S OVERSEAS ECONOMIC COOPERATION FUND, WILL BE 2.75 PERCENT INTEREST AND THIRTY YEARS' REPAYMENT (INCLUDING TEN YEARS' GRACE). LOANS WILL BE UNTIED TO EXTENT OF ALLOWING PROCUREMENT IN LDC'S AS WELL AS IN JAPAN. HOWEVER, LOANS CANNOT BE USED FOR LOCAL COST FINANCING. LOANS WILL BE USED FOR IMPLEMENTATION OF PROJECTS SELECTED FROM AGREED PROJECT LIST. AMONG PROJECTS WHICH MAY BE SELECTED ARE: WLINGI MULTIPURPOSE PROJECT; WLINGI HYDRO POWER PLANT; EAST JAVA TRANSMISSION AND DISTRIBUTION NETWORK, PHASE III, PART I; IMPROVEMENT OF TV NETWORK; MEDIUM WAVE RADIO NETWORK; REPLACEMENT OF DREDGING FLEET; NAVIGATIONAL AIDS; INTERISLAND FLEET DEVELOPMENT PROGRAM; WEST JAVA FERTILIZER PLANT; ENGINEERING SERVICES (JAKARTA-MERAK HIGHWAY, GRESIK POWER PLANT, AND WONOGIRI DAM); MICRO FIRST; MICRO THIRD; AND, OTHER PROJECTS AS MAY BE MUTUALLY AGREED UPON.

2. ACCORDING TO SEZAKI, MOST DIFFICULT POINT OF THE NEGOTIATIONS WAS DECIDING YEN AMOUNT TO CORRESPOND TO EARLIER PROMISED 140 MILLION DOLLARS. AT TIME JAPAN OFFERED DOLLAR AMOUNT, EXCHANGE RATE OF 287 YEN/DOLLAR WOULD HAVE EQUALLED 39.7 BILLION YEN. WHEN INDONESIAN DELEGATION ARRIVED IN TOKYO IN MID AUGUST, HOWEVER, THEY INSISTED CURRENT RATE OF 300 YEN/DOLLAR, WHICH WOULD EQUAL 42 BILLION YEN, SHOULD BE USED. AGREED AMOUNT OF 41 BILLION YEN WAS COMPROMISE.

3. DUE TO IMPROVED INDONESIAN B/P SITUATION, SAID SEZAKI, GOJ PROMISED NO COMMODITY AID THIS YEAR (IN CONTRAST TO PAST PRACTICE), AND FOR SAME REASON DECLINED TO FINANCE LOCAL CURRENCY COSTS (AGAIN IN CONTRAST TO PAST PRACTICE). JAPAN ALSO TOLD INDONESIANS THAT, FOR SAME REASON, IT WOULD BE DIFFICULT TO JUSTIFY FOOD AID, AND LIMITED OFFICIAL USE

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INDONESIANSIDE DID NOT CONTEST THIS POINT. THEREFORE, SAID SEZAKI, HE EXPECTS THAT SOME 4.5 MILLION DOLLARS WHICH GOJ HAD EARLIER PLANNED TO USE FOR FOOD AID TO INDONESIA WILL NOW BE USED FOR FOOD AID TO BANGLADESH AND SRI LANKA.

4. IN ADDITION TO NEW 41 BILLION YEN LOANS, INDONESIANS SAID THEY WOULD LIKE JAPAN EXIM BANK FINANCING TO SUP-

POR WEST JAVA FERTILIZER PLANT PROJECT, SAID SEZAKI. JAPAN PROMISED 40 MILLION DOLLARS FOR THIS PROJECT IN 1972 AND 1973 AND AN ADDITIONAL 20 MILLION DOLLARS IN NEW COMMITMENT DESCRIBED PARA 1 ABOVE. THUS, OF TOTOTAL PROJECT COST OF 130 MILLION DOLLARS, ADDITIONAL 70 MILLION DOLLARS IN FOREIGN CURRENCY COSTS REMAINS TO BE FINANCED, EXPLAINED SEZAKI.) GOJ RESPONDED THAT EXIM POLICY PRECLUDES ADDITIONAL LOANS TO COUNTRY WHOSE EXTERNAL DEBTS HAVE BEEN RESCHEDULED (AS IS CASE WITH INDONESIA). EXCEPTION TO THIS POLICY EXISTS IN CASES OF ENERGY RELATED PROJECTS WHERE REPAYMENT OF CREDITS IS TO BE IN KIND, BUT INDONESIAN SIDE DID NOT PROPOSE REPAYMENT IN KIND FOR FERTILIZER PROJECT LOAN (WHICH PRESUMABLY FALLS WITHIN EXCEPTION), SO REQUEST WAS DECLINED. SEZAKI POINTED OUT THAT INDONESIANS IN PAST HAVE REQUESTED FINANCIAL SUPPORT FOR THIS PROJECT WITHIN IGGI FRAMEWORK (I.E., ON CONCESSIONAL BASIS) BUT THAT THIS YEAR THEY WOULD HAVE BEEN WILLING TO ACCEPT EXIM LOAN ON HARDER TERMS. INDONESIANS UNDERSTAND THAT CONCESSIONAL AID WITHIN IGGI FRAMEWORK WILL DECLINE IN FUTURE, HE SAID.

5. RECALLING EARLIER DISCUSSION WITH EMBOFF IN WHICH PROBLEM OF DELAY IN IMPLEMENTATION OF JAPANESE AID-FINANCED PROJECTS HAD BEEN CAUSED BY INFLATION (REF B), SEZAKI SAID THAT AGREED PROJECT LIST DOES NOT SPECIFY AMOUNTS TO BE SPENT FOR EACH PROJECT AND THAT PART OF NEW AID COMMITMENT (PARA 1 ABOVE) MAY BE USED FOR COST OVERRUNS ON PROJECTS FOR WHICH AID HAD BEEN PREVIOUSLY COMMITTED. AT SAME TIME, TWO SIDES AGREED TO DELETE CERTAIN PROJECTS FROM PROJECT LISTS AGREED TO IN 1970, '71 AND '72 DUE TO LARGE COST OVERRUNS INVOLVED: COMMUNICATIONS SYSTEM IMPROVEMENT (1970); P.N. SODA WARU EXTENSION, SURABAJA; LONG DISTANCE COMMUNICATION PROJECT, LIMITED OFFICIAL USE

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CENTRAL AND SOUTH SULAWESI; REHABILITATION OF CITY GAS DISTRIBUTION NETWORKS FOR JAKARTA (ALL 1971); REHABILITATION OF RAILWAY TRACK, WELERI-SURABAJA; AND BRIDGE RE-PLACEMENTS, TIJIREBON-SEMARANG-SURABAJA (BOTH 1972). FUNDS THUS RELEASED CAN ALSO BE USED FOR COST OVERRUNS OF HIGHER PRIORITY PROJECTS.

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INFO OCT-01 EUR-25 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 IGA-02 AGR-20 DRC-01 SWF-02 NEA-14

IO-14 FEA-02 INT-08 /225 W

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R 130850Z SEP 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 4562

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

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6. IN ADDITION TO NEW LOAN COMMITMENTS DESCRIBED PARA 1  
ABOVE, GOJ AND GOI REPS REACHED AGREEMENT ON LOANS  
WHICH HAD BEEN PLEDGED BY GOJ IN 1971, 1972, AND 1973  
BUT NOT FORMALLY COMMITTED UNTIL NOW; A) PROJECT LOAN  
OF 4,920 MILLION YEN (ABOUT 16.3 MILLION DOLLARS AT 302  
YEN/DOLLAR) TO FINANCE PROJECTS AGREED TO IN 1971; AND  
B) PROJECT LOAND OF 14,300 MILLION YEN (ABOUT 47.4  
MILLION DOLLARS AT 302 YEN/DOLLAR) TO FINANCE PROJECTS  
AGREED TO IN 1972. TERMS OF THESE LOANS, TO BE EXTENDED  
BY OECF, WILL BE THREE PERCENT INTEREST AND TWENTY-FIVE  
YEARS' REPAYMENT (INCLUDING SEVEN YEARS' GRACE). FURTHER,  
AGREEMENT WAS REACHED ON C) PROJECT LOAN OF 20,400  
MILLION YEN (ABOUT 67.5 MILLION DOLLARS AT 302 YEN/  
DOLLAR) TO FINANCNE PROJECTS AGREED TO IN 1973. TERMS  
OF THIS LOAN, TO BE EXTENDED BY OECF, WILL BE 2.75 PER-  
CENT INTEREST AND THIRTY YEARS' REPAYMENT (INCLUDING  
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TEN YEARS' GRACE). TO REPEAT: LOANS IN THIS PARA 6  
WERE PLEDGED EARLIER BUT HAD NOT BEEN FORMALLY COMMITTEED  
UNTIL NOW.

7. A PACKAGE OF DOCUMENTS CONSISTING OF NOTE EXCHANGES, LETTER EXCHANGES, NOTES VERBALE AND A RECORD OF DISCUSSIONS INCORPORATING THE ABOVE AGREEMENTS IS TO BE SIGNED SEPT 20. SEZAKI, IN CONFIDENCE, PROVIDED DRAFT COPIES OF THESE DOCUMENTS TO EMBOFF. EMBASSY WILL POUCH TO DEPT (EA/J) AND JAKARTA FOR INFO.

8. FOR RED. EMBASSY WOULD APPRECIATE ADVICE WHETHER RED WOULD LIKE TO RECEIVE TOKYO MESSAGES ON JAPAN'S ASIA AID PROGRAMS ON CONTINUING BASIS.

HODGSON

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## Message Attributes

**Automatic Decaptoning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC ASSISTANCE, AGREEMENTS, FINANCIAL CONTRIBUTIONS, NEGOTIATIONS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 13 SEP 1974  
**Decapton Date:** 01 JAN 1960  
**Decapton Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** kelleyw0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
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**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
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**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
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**Review Action:** RELEASED, APPROVED  
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**TAGS:** EAID, JA, ID, IGGI  
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**Type:** TE  
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